

University of Mississippi

eGrove

Newsletters

American Institute of Certified Public
Accountants (AICPA) Historical Collection

1970

Accounting Research Association Newsletter, Volume III, Number 2, May 14, 1970

American Institute of Certified Public Accountants. Accounting Research Association

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_news



Part of the [Accounting Commons](#), and the [Taxation Commons](#)



Accounting Research Association

newsletter

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, 666 FIFTH AVE., NEW YORK, N.Y. 10019

VOL. III, No. 2

May 14, 1970

HIGHLIGHTS OF APB MEETING

Proposed Opinion on Accounting Changes May Be Revised: Action on the draft Opinion, Changes in Accounting Methods and Estimates, was deferred by the Accounting Principles Board at its meeting, April 30-May 2, in Boca Raton, Florida, in order to explore an alternative proposal.

The exposure draft (ARA Newsletter, Feb. 2, 1970) calls for retro-active restatement for all past periods affected by the change to conform to the new basis. The alternative proposal includes the following elements:

...A figure representing the cumulative effect of the change on net income for prior years will be reported separately on the income statement for the year in which the change took place. This adjustment will appear after "income before extraordinary items" and before "net income."

...Disclosure of the effect of the change on net income and earnings per share for the current period and all prior periods presented must be made. In the usual annual report where comparative income statements for two years are presented, disclosure of the effects for the earlier years could be made in the notes to the financial statements or in historical summaries furnished with the statements.

A new draft Opinion incorporating these features will be considered by the Board at its June meeting. If it receives sufficient support within the Board, it is expected to be exposed for public comment under the regular procedure.

Business Combinations: Some 230 letters of comment have been received on the exposure draft of the Opinion on Business Combinations and Intangible Assets (ARA Newsletter, Feb. 2, 1970). As expected, there has been considerable opposition from individuals in industry, and considerable support from professional and trade groups that work closely with the APB. The Board has not indicated any change in its tentative position. Final action is expected at the June meeting.

Domestic International Sales Corporations (DISC): A recent proposal by the Treasury would provide for deferral of Federal income tax on export profits by establishing a special tax shelter for DISCs. Under this proposal, Federal income taxes on export profits earned by the DISC would not be payable until those profits are distributed as dividends to shareholders.

The Treasury Department has been notified that the Board believes tax allocation should be applied to the earnings of DISCs in the same way as it is applied to the earnings of foreign subsidiaries. Paragraph 16, ARB 51, as presently written, calls for estimated income tax provisions to be made at the time earnings are included in consolidated financial statements if a taxable

(continued)

distribution of undistributed earnings of a subsidiary is likely. Where there is evidence that such earnings are to be permanently invested by the subsidiary, there is no need for the parent company to make such a tax provision. The Board announced in Opinion No. 11 (Par. 39) that revision of Par. 16, ARB No. 51 was under consideration. The implication of the Board's notification to the Treasury is that any future revisions would in all likelihood apply to DISCs and to foreign subsidiaries in the same way.

Other Board Actions: The committee on diversified companies was authorized to develop a questionnaire to obtain Board members' views prior to drafting an Opinion. Basic issue is whether segmented financial reporting is necessary for fair presentation, if suitable guidelines can be established.

Suggestions were made for revising draft Opinion on accounting for long-term investments in common stock, which will be considered at June meeting for possible exposure.

A new draft on the fundamentals of financial accounting will be prepared for consideration in September.

MARKET VALUES IN STOCK BROKERAGE ACCOUNTING

Two significant items emphasizing the growing use of fair values in financial statements are reflected in a recent registration statement filed by Donaldson, Lufkin & Jenrette Inc., the first brokerage firm to offer its own stock to the public.

The first item gives effect in the income statement to the unrealized appreciation or depreciation in the market value of readily marketable investments, including dealer inventories. The second is the disclosure of the increase or decrease in the estimated fair value of long-term and corporate development investments which are not readily marketable.

The income statement in the prospectus reports net income after including unrealized appreciation or depreciation in market values of marketable securities. Earnings per share are calculated on this basis, and the statement further discloses two more per share figures. One is the per-share increase or decrease in the fair value of securities for which a market value could not be determined, and the other is the sum of the preceding two per share figures.

The Institute's committee on stock brokerage accounting previously had tentatively recommended that a broker's marketable securities be carried at market value and nonmarketable securities at fair value, with changes in values, less tax effect, shown in income.

Some reservations were expressed about the practical difficulties of determining fair values of securities which are not readily marketable. The tentative solution used in the prospectus was agreed upon with the SEC and other groups pending final solution by the committee, subject to clearance by the APB chairman.